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Working Paper

Lobbying and Political Influence in Britain

Evaluating a Signalling Model of Group-Government Interaction

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Editorial Note:

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out during his time at the Mannheim Centre.*

Abstract

Questions of the political influence of business and other organized interests are at the heart of democratic theory and political science. But while in recent years there have been noteworthy theoretical advances on special interest politics, our empirical understanding of the role of lobbying in the production of public policy is lagging behind. This paper provides an empirical test of a model predicting when lobbyists provide useful information to policymakers and when policymakers follow lobbyists' advice. The predictions are assessed against data on the policy positions and lobbying activities of firms and other organized groups in the context of 35 policy proposals advanced by UK governments between 2001 and 2007. The results suggest that the behaviour of policymakers and lobbyists is driven mainly by the expected policy costs for policymakers. This provides lobbyists with strong incentives to either provide accurate advice to policymakers or abstain from costly lobbying. There is little support for the expectation that lobbyists can successfully persuade policymakers to take a course of action that is beneficial to the lobbyist at the expense of wider constituencies.

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1   Introduction

Between elections, political participation by organized interests in the form of lobbying provides the main channel through which citizens and organizations can attempt to influence the political process. Compared with voting at elections, lobbying is taken up unevenly: it is mainly used by organized interest and business corporations. This causes concerns that interest groups' influence-seeking activities undermine political equality and democratic accountability (Dahl 1989; Schattschneider 1960; Schlozman and Tierney 1986). The importance of the political activities and influence of organized interests has been thrown into sharp relief in recent years in the wake of the financial crisis and the perceived role of lobbying in undermining the regulatory framework needed for a functioning financial system. In terms of political resources ranging from technical expertise to money, few groups in society are a match for business actors. Other organized interest too can muster considerable political resources. Yet, for lobbying to cause problems for democracy, it has to be effective in steering policy decisions away from their legitimizing democratic mandate. This effectiveness is often queried: Do organized interests really influence democratic politics? If so, how do they achieve this?

A burgeoning theoretical literature has proposed answers to these questions. Game theoretical models can be particularly suitable for the analysis of lobbying, as policymakers and lobbyists often have partially conflicting preferences and relevant information is unevenly held (Ainsworth, 1993; Austen-Smith, 1993; Lohmann 1993). But compared with research on voting or party politics, the empirical study of interest groups in general, and of the effectiveness of their political activities in particular, is lagging behind (Jordan and Halpin 2005). Surveys of the literature on interest groups in the United States consider the question of interest groups' power and influence to be 'exceedingly difficult to answer' (Loomis and Cigler 1995, 25) and characterize it as an area of 'confusion' in the literature (Baumgartner and Leech 1998, 13). Baron (2006, 629) identifies but one of the reasons for this, highlighting how 'any theory of lobbying is difficult to test directly because the support (other than campaign contributions) provided to individual legislators is not reported.' The formal analysis of political action by special interest groups as strategic information transmission poses additional challenges, as it relies on concepts that are difficult to measure, such as prior beliefs, information levels, order of moves, structure of communication, and reputation (cf. Sloof 1998, 248). While it is possible to collect field data to test observable implications of formal models of lobbying, quantitative applications remain few and far between (Austen-Smith and Wright 1994; Broscheid and Coen 2007) and have so far not included analyses of policy output. But the scarcity of empirical analyses of group influence is not inevitable. Data on interest group lobbying across many policy issues can provide novel insights as well as methodological leverage over persistent problems and puzzles (Baumgartner and Leech 1998; Dür 2008; Lowery et al. 2008).

This paper undertakes a step in that direction by empirically testing a theoretical model of interest group influence developed by Bernhagen and Bräuninger (2005). The model is based on the assumption that lobbyists have first hand access to technical expertise and other information necessary for efficient political decision making (cf. Austen-Smith, 1993; Grossman and Helpman, 2001; Lohmann

1993). While this enables lobbyists to communicate information about the likely consequences of policy to policymakers, the latter in turn suspect that some lobbying may be purely self-serving. Policymakers therefore have to infer the credibility of the lobby message from the observed levels of costly political action before deciding whether to follow lobbyists' recommendations in the making of public policy. By predicting the conditions under which lobbyists report accurate information and policymakers choose to heed their advice, Bernhagen and Bräuninger's model provides theoretical insights into the logic of political influence. But like most formal treatments of interest group politics, it has so far not been tested against a larger number of cases.

Influence-seeking behaviour can take place at different stages of the policy process, and much has been written about the usefulness of focusing on one or other of these stages (e.g., Baumgartner and Jones, 1993; Jenkins-Smith and Sabatier, 1993; Kingdon, 1984). Perhaps the biggest lesson to have come out of these debates is the insight that political influence can be wielded at any of the various stages, from the formation of the political agenda to the eventual implementation of policies. This paper focuses on a crucial segment within the policy process at which policies can be made or un-made: the decision stage. It directly addresses whether and how organized interests can succeed in steering public policy away from a direction that a policymaker has already committed to. Using data on 35 policy proposals advanced by UK governments between 2001 and 2007, this paper provides an empirical test of Bernhagen and Bräuninger's model about political influence at the decision making stage. Collected in an online survey of lobbyists, the data contain information on the policy positions and lobbying activities of firms, trade associations, labour unions, and other organized groups; the level of policymakers' commitment to the policy; the quality of the relationship between lobbyist and policymakers; the possible negative consequences of the policy; and whether or not the policy in question was eventually enacted as promised.

The paper begins with an overview of the informational model of interest group influence developed by Bernhagen and Bräuninger (2005), followed by an outline of the empirical strategy and descriptions of the data and measurement. After this, the results of the empirical analysis are presented. The concluding section discusses the implications of the results for the influence of special interests in pluralist political systems.

2   Lobbyists, Policymakers and Political Influence

In representative democracies, the political influence of interest groups is circumscribed by policymakers' need to balance political support from any one group against other likely sources of support (Galbraith 1954; Denzau and Munger 1986; Vogel 1996), including the countervailing power of public opinion (Truman 1951). This limits the ability of organized interests to influence policy decisions by making manifestly self-seeking demands when lobbying policymakers. Therefore, lobbyists have to appeal to goals other than their own self interest. This could be the 'public interest' or, perhaps less ambitiously, the interest of the policymaker. A lobbyist can then offer his advice to the policymaker,

who can in turn use this advice to further her own goals, the public good, or both.[1] These goals may include winning elections, regaining office, implementing desired policy or some mixture if these. In the pursuit of these goals, policymakers have to avoid implementing policies with negative electoral, fiscal or other bad consequences.

Bad policy consequences will often be related to the macro economy, e.g. stifled growth or disincentives for investment. But they may also afflict regulatory policies, where decentralized responses to authoritative decision making can render measures of public policy inefficient or even exacerbate the very problem they were intended to address (Peltzman, 1973; Sunstein, 1998, pp. 234-236). Lobbyists can use private information, such as technical expertise, data on markets and production costs, and information on citizen preferences, to help policymakers in their assessment of the likelihood of these bad consequences. By the same token, they may also use this information to influence political decision making for the advancement of their own political goals.

Drawing on informational analyses of special interest politics (Ainsworth, 1993; Austen-Smith, 1993; Grossman and Helpman, 2001), Bernhagen and Bräuninger (2005) have formulated a model of interest group lobbying at the decision stage in which policymakers have to balance incentives to deliver on their policy pledges with the need to avoid policies that have bad consequences. In this situation, lobbyists can offer useful advice. The problem for policymakers is that they often lack the information required to assess the accuracy of a lobbyist's advice (if they had that information, they would not need the advice given). By contrast, much of the information required for the assessment of policy consequences is routinely available to special interest groups – this is what special interests specialize in (Esterling 2004). Membership-based interest groups routinely collect data about costs, demand or technological expertise as private information that is important for political decision making. Firms accumulate knowledge about policy issues that affect them in the course of performing their everyday activities (Polk, 2002). Thus, organized interests enjoy informational advantages *vis-à-vis* policymakers, who face considerable capacity constraints. Lobbyists can use this asymmetric information to their advantage.[2]

However, lobbyists also have a strong, long-term interest in maintaining a reputation as suppliers of good information (Berry, 1989, pp. 143-146). Thus, when devising a lobbying strategy, interest groups have to balance incentives to misrepresent a policy's likely consequences *and* to maintain a good reputation and relationship of trust with policymakers, avoiding situations in which wildly exaggerated assertions become exposed.

At the same time, lobbyists often have important and helpful information to bring to the policy process (Esterling 2004). Knowing that lobbyists are self-interested, policymakers are suspicious of the possi-

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[1] In representative democracy, a positive correlation between these goals is usually expected.
[2] Bernhagen and Bräuninger assume that being informed is costless for lobbyists. Of course, many lobbyists have to pay for at least some of the policy-relevant information they collect. The rationale for the assumption of zero information-acquisition costs for lobbyists is that many of the relevant expenses will have already been made by the time the lobbyist decides whether or not to lobby around a particular policy.

bility of misrepresentations. Therefore lobbyists with good information to share have to find ways of distinguishing themselves from their less informative peers. One way is to make their messages more credible by underlining them with costly campaigning and lobbying. The problem is that this also provides self-serving lobbyists with incentives to emulate their helpful peers. As a result, both 'types' of lobbyists, those whose interests concur with the interests of the policymaker and those whose interests conflict with the policymaker's have incentives for costly lobbying. In that case, policymakers cannot know which type of lobbyist they are dealing with. A signalling game ensues in which a lobbyist 'reminds' the policymaker that her lot is structurally tied to the goals of the interest group, while the policymaker is aware that the veracity of this claim varies according to a parameter that is unknown to her: whether or not the pending policy has bad consequences.

Bernhagen and Bräuninger (2005) have formally analyzed this situation as a sequential game of asymmetric information. In their analysis, 'nature' chooses whether a pending policy will have negative consequences (t_1) or not (t_2) and reveals its move to the lobbyist, but not the policymaker. Privately informed about the state of the world, the lobbyist sends a costly message to the policymaker to inform her decision, or refrains from doing so. The policymaker can then either pass the policy in question or retain the status quo. The resulting payoffs for the policymaker and the lobbyist depend on which of the two states of the world is realized. If the policy has negative consequences that can affect the policymaker's ability to gain another term in office at the next election or to achieve her various other goals, it also has severe negative effects on the lobbyist. The negative policy consequences for the policymaker are represented by u. Regardless of the state of the world, if the policymaker chooses to drop the policy in question she defaults on her policy pledges and may incur damage to her credibility, reputation, and popularity with voters for selling out to special interests. In Bernhagen and Bräuninger's model, these pledge costs are denoted by p.[3]

The lobbyist incurs minor policy costs if the policy is enacted but has no severe bad consequences. He is relieved of all costs except any material lobbying costs (l) if the policymaker complies with his lobbying demands. In contrast to previous signalling models, Bernhagen and Bräuninger's model also considers the *reputational* costs of making inaccurate or inflated claims about policy effects: if it turns out that the lobbyist wrongly warned the policymaker of negative policy effects, he will incur an exogenous penalty for providing bad information (k), which can be seen as a deterioration in the standing of the lobbyist in the eyes of the policymakers. This may lead to being denied access to the policymaker for future representations. It is assumed that bad information can only be detected once the policymaker has passed the policy.

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[3] Bernhagen and Bräuninger (2005) also considered the possibility that open disputes over contested legislation have negative effects on investment or on public perceptions of the policymaker's competence, conferring on the policymaker a 'confidence cost' *v* whenever the interest group decides to lobby. They have shown that this is in fact inconsequential in a lobbying game where utilities are defined by policy consequences.

Bernhagen and Bräuninger (2005) identified numerous equilibria of the lobbying game.[4] This paper will concentrate on the most important types. In a separating equilibrium the two possible 'types' of lobbyists send different messages and the policymaker, having observed the signal, can infer the state of the world with certainty. In a lobby-pooling equilibrium, all types of lobbyist claim negative inducement effects of the pending policy. Finally, in a silence-pooling equilibrium, both types of lobbyist refrain from costly action. In a pooling equilibrium, the policymaker cannot learn anything from the lobby message and her beliefs do not change after receiving the signal. The policymaker will base her response of either passing the policy or pulling back and retaining the status quo on the possible costs of defaulting on a policy pledge compared with the possible costs of bad policy consequences, as well as on her beliefs concerning the likelihood of these. She will update her beliefs based on the messages received from the lobbyist and in the light of the possible policy and pledge costs.

While actors' beliefs and the state of the world are not directly observable, Bernhagen and Bräuninger (2005) propose that predictions of the behaviour of the lobbyist and the policymaker's response can be made by reference to two observable parameters: the ratio of material lobbying costs to the costs of being exposed as providing bad information, and the ratio of pledge costs to the costs of unforeseen policy consequences. Specifically, they proposed that a separating equilibrium will result in two situations. In the first case, the policymaker expects relatively high pledge costs from failing to deliver the policy and consequently always passes it whatever signal she receives from the lobbyist. Here, the lobbyist reports the state of the world accurately as the costs for providing bad information are high and would exceed the material lobbying costs. In the second case, the policymaker's pledge costs are smaller than negative inducement costs, so that the policymaker will be responsive to the signal sent by the lobbyist: she withdraws the proposal if the lobbyist signals severe adverse effects but passes the policy if the lobbyist remains silent. The lobbyist's utility, on the other hand, is marked by a balanced ratio of the (material) costs of lobbying to the costs of providing bad information such that informative lobbying is in equilibrium.

Next, Bernhagen and Bräuninger identify lobby-pooling equilibria if both cost ratios are small, i.e. when there is little incentive to misrepresent on the side of the lobbyist and only a weak incentive for the policymaker to enact the proposal ($l/k < 1$ and $p/u < 1$). In this situation, the lobbyist always claims to be severely affected. Counter intuitively, the lobbyist is more likely to provide bad information if he has apparently little incentives to do so. The reason for this is that under these circumstances the policymaker does not except the lobbyist to provide bad information, which makes a pooling more likely to succeed.

Finally, there are silence-pooling equilibria in two principal situations. In the first scenario, lobbying costs exceed the costs of providing bad information ($l/k > 1$) so that the lobbyist has no incentive to

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[4]   The solution concept used by Bernhagen and Bräuninger is perfect Bayesian equilibrium (PBE). A PBEs is a strategy-belief triples requiring that (i) for any type t of lobbyist his strategies must be optimal given the strategy of the policymaker; (ii) the policymaker's strategy maximizes her expected payoff given her posterior beliefs about the type of lobbyist; and (iii) the posterior beliefs satisfy Bayes' rule whenever possible (cf. Fudenberg and Tirole, 1991).

send a costly message whatever the state of the world. The policymaker's equilibrium response is to pass the policy if the pledge-to-economic-costs ratio is considerably high, and to retain the status quo if the ratio is reasonably low. In the latter cases, a low cost ratio for the policymaker induces a silence pooling equilibrium with a compliant policymaker, whatever the cost ratio for the lobbyist. Figure 1 provides a summery of Bernhagen and Bräuninger's main equilibrium solutions (2005), locating the main equilibria of the game on a two-dimensional space defined by l/k and p/u.[5]
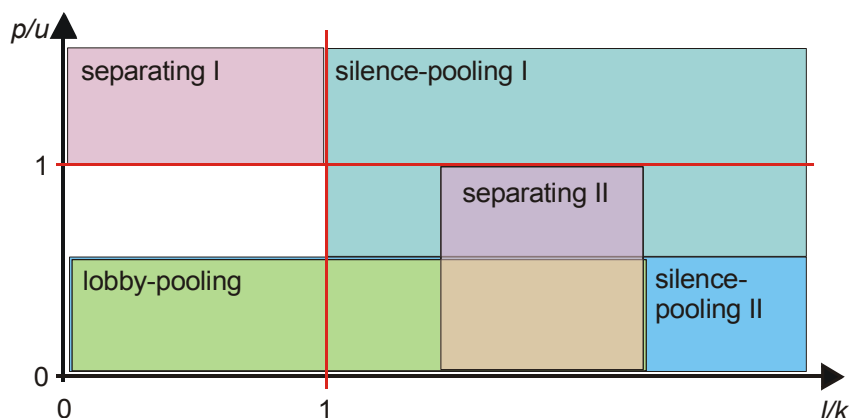
Lobbyist's (L) payoffs		Policymaker's (P) payoffs	
l	material lobbying costs	u	severe policy costs
k	reputation costs	p	pledge costs

Figure 1. Equilibria of a lobbying game

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3   Empirical Strategy, Data and Measurement

While formal models of political behaviour can enable researchers to develop more precise empirical hypotheses, this quickly becomes a challenging task when two or more players interact strategically (Carruba, Yuen and Zorn 2007; Signorino 1999, 2003). Such cases make up a large share of interesting and important political interactions. The signalling model presented above is one of these cases. Three kinds of problems arise.

Firstly, it is difficult to specify the correct functional form of an empirical model given the theoretical model it is supposed to test. A hypothesis derived from a game-theoretic model is a joint hypothesis about the assumed social and information structures, the procedure, a particular form of rationality, and usually a specific equilibrium refinement (Kennan and Wilson 1993, 54). All of these different factors are pertinent to the present case. Secondly, there is a contradiction between statistical models giving positive probability over all outcomes and the deterministic prediction of (subgame-perfect) Nash equilibrium in which some outcomes are reached with certainty while other outcomes are given no positive probability at all (the 'zero-likelihood' problem).[6] Thirdly, mixed strategies are common, not least in games of imperfect information, but observable implications are virtually impossible to identify for mixing behaviour.

In such situations few (if any) specific recipes for operationalization exist beyond the general imperative 'that one must carefully operationalize predictions generated by strategic behaviour' (Carruba, Yuen and Zorn 2007, 480). This paper will therefore explore the empirical fit of the theoretical model graphically by plotting the main equilibrium types against the theoretical predictions from the lobbying game. A semi-separating PBE identified in Bernhagen and Bräuninger's (2005) analysis is excluded from the empirical analysis, as observable implications of the mixing behaviour cannot be identified.

The role of organized interests in policymaking processes varies across countries (Richardson, 1982; Schmitter and Lehmbruch, 1979) and policy areas (Grier, Munger and Roberts, 1994; Lowi, 1964). To control for these factors, data were collected in an elite survey on 163 policy proposals advanced by UK governments between 2001 and 2007. Restricting the analysis to the UK means that systemic differences at the country level are held constant. The policies encompass most major policy areas as classified by the Comparative Manifesto Project (Klingemann et al., 2006). Data collection proceeded in three steps.

Firstly, an archival search of seven major U.K. broadsheets (*The Daily Telegraph, The Financial Times, The Herald, The Guardian, The Independent, The Scotsman, The Times*) was carried out to

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[6]   While highlighting a fundamental problem in the relationship between deterministic theories and statistical empirical models, the zero-likelihood problem might arguably have little practical implication for applied research (cf. Carruba, Yuen and Zorn 2007, 480). The assumptions about actors' motivations and computational capacity underlying standard rational choice models concern ideal types that are at best approximated in the empirical world. Erratic behaviour abounds, as do errors in social scientists' efforts to observe strategies and measure utilities and outcomes. It is far from clear how and to what extent the different sources of error affect the relationship between theoretical and empirical models.

compile a list of policy proposals. Because of the U.K.'s executive-dominated, parliamentary system of government, the focus is only on proposals that emanate from the government or from individual ministries. A governmental policy proposal is defined as *any statement of intent by a member of government to effect policy change by means of drafting, enacting and implementing a collectively binding decision*.[7] Using LexisNexis, search terms encompassed word triplets and their grammatical permutations such as [government + introduce + legislation], [government + announced + legislation], [minister + plans + policy].[8] The starting point of the sampling period was June 1, 2001 – the date when the most recent government that completed a whole term resumed office in Westminster. Policy proposals were collected until August 31, 2007. To ensure a minimum level of salience, only those policy proposals for which at least one societal actor was mentioned were recorded. This procedure yielded the initial sample of 184 distinct policy proposals uttered by a member of the UK or Scottish governments.[9]

In a second step, LexisNexis searches were used to identify all organized interests – firms and business associations, citizen groups, labour unions and think tanks – that have been reported to take an interest in, or a position on, the proposals recorded in the previous step.[10] Of the 184 policy proposals, 21 had not yet been decided by the policymaker by 16th March 2009, the cut-off date for data collection, so that no outcome could be coded. These cases were dropped from further data collection and analysis. For the remaining 163 cases, the outcome was coded '1' if the policy was eventually enacted as originally announced by the policymaker and '0' if it was abandoned or significantly modified. For the coding of this variable, official government documents were used in addition to the newspapers.

Much influence-seeking activity goes unreported by the media, and the visibility of political activities may be different for different types of lobbyists. For example, business interests are said to employ outside lobbying strategies to a lesser extent than non-business groups. In the context of US agricultural policy, Salisbury (1984) found citizen groups to play more prominent roles in publicly visible arenas and the news media, while firms and trade associations seem to be more active in the less visible arenas. Therefore, to the extent that covert business political activity is not captured by the media, the data would under-represent the level of business activity relative to the political activity levels of non-business interests.

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[7] Enacting the policy proposal may or may not require a formal vote in parliament, and the data allow controlling for such a requirement.

[8] A complete list of search terms used is available at www.pbernhagen.de/influence.htm.

[9] While the initial policy search included the *Belfast Telegraph* and the *Irish News*, too few cases from Northern Ireland cropped up to justify inclusion in the sample.

[10] The term 'organized interests' is used to denote any politically active organization, including associations with individuals as members as well as associations with organizations as members or institutions such as corporations, universities, or hospitals (Lowery and Gray, 1995). For a systematic discussion of the nomenclature and conceptual issues in this area see Jordan et al. (2004).

However, a comparison with US studies using different sampling strategies suggests that the data used here are not affected by the bias identified by Salisbury for lobbying around agricultural policy issues.[11]

In a third step, an internet survey was used to obtain measures of the lobbying effort (if any) made by the actors, the quality of their relationship with policymakers, the degree of the policymaker's commitment to the policy, the expected costs and benefits of the policy for lobbyists and policymakers, and the lobbyists' assessment of the state of the world.[12] Of 561 questionnaires that were sent out in May and June 2009, 114 were completed and returned. The overall response rate is thus 20 percent, but this differs considerably for different types of actors. On one end, business peak associations (including the Institute of Directors and the National Farmers Union) responded to 37 percent of requests, followed by trade associations with a response rate of 29 percent. On the other end of the scale, professional associations and think tanks returned only 8 percent of the questionnaires sent to them.[13] This response rates are below what is reported in studies on organized interest strategies in European countries (e.g. Dür and Mateo 2010; Eising 2007). This reflects the greater demands out on survey respondents asked about specific policies, some lying several years in the past, compared to addressing more general questions about organizational characteristics and strategies.

While most returned questionnaires were complete or almost complete, a small number of respondents chose to leave some questions unanswered. Moreover, some responses from the same actor type are for the same policy proposal, leading to overlap that further reduces the number of policy proposals for which survey data is available. For example, of the 29 trade associations that returned a questionnaire, 25 answered the question whether the policy has been (would have been) beneficial for their members. Of these, responses from three trade associations concerned the same policy, so that data on one or more trade association assessment of a policy's implications could be recorded for 22 policy proposals. In total, survey responses from at least one actor are available on most variables of interest for 68 policy proposals. As the aim is to test predictions about the interactions between a policymaker and a single lobbyist, the effective response rate with respect to the number of cases is 42 percent.

Finally, in order to arrive at a sample of policy episodes relevant to the lobbying model proposed by Bernhagen and Bräuninger, 31 cases in which the lobbyist was supportive of the policy proposal are

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[11] See Baumgartner et al., 2009; Baumgartner and Leech, 2001; Heinz et al., 1993; Schlozman and Tierney, 1986. Bernhagen and Trani (2011) provide detailed comparisons of the distribution of actor types in these different studies and the data used in the present analysis. No comparable large-N studies of interest group lobbying exist for the UK.

[12] Actors that appeared in the context of several policy proposals were asked to respond to several questionnaires in face-to-face or telephone interviews with the investigator. Two organizations have been surveyed in this way: Staff at the Confederation of British Industry (CBI) completed twelve questionnaires in face -to-face interviews with the investigator, in addition to completing an online survey on a thirteenth policy proposal. One citizen group took three surveys on the phone in addition to completing one online. One other citizen group answered a questionnaire in a phone interview.

[13] The peak association of organized labour, the TUC, declined repeated requests to take a survey, quoting resource and time constraints as the reason for non-response.

omitted from the analysis. Two further cases drop out due to missing data on one or more variables. Of the 35 proposals for which equilibrium strategies of lobbyist and policymaker could be coded, just under two thirds (65.7 percent) were enacted largely as promised, while the other third were either considerably compromised or altogether abandoned. An example of the first outcome is the increased powers for animal welfare inspectors provided for in the 2006 Animal Welfare Bill. The policy proposal had been first introduced by the government in early 2004. It passed the third reading in the House of Commons in March 2006 and received royal assent in October that year. An example of the second instance is the government's plan, announced in October 2005, to introduce airport-style security checks at mainline train stations and London tube stations. Concerns raised by industry actors, including the Association of Train Operating Companies, in the context of trial runs were sufficient to persuade the government that the policy was not feasible without major sacrifices to the efficiency of rail transport in Britain. The policy was effectively abandoned by June 2008, when it was announced that instead travelling teams of British Transport Police were deployed at a handful of stations at a time to conduct spot checks using bag screening machines and bomb detection dogs. A list of all 35 proposals is provided in the Appendix. Four cases are Scottish government proposals under devolved powers.

The equilibria are identified empirically by the lobbyist's strategy (costly lobbying or not), the policy-maker's strategy (enact the policy or not), and the state of the world as reported by the interest groups in the survey. They comprise two separating equilibria, a lobby-pooling equilibrium, and two silence-pooling equilibria. For the empirical coding of these equilibria, the strategy pairs off the equilibrium path cannot be utilized, as they cannot be observed. As the different equilibria are partly distinguished by behaviour off the equilibrium path, there will be observational overlap of several PBEs for a number of cases.

Table 1. Empirical Identification of Equilibria

Separating I	$(s_1 \mid t_1, s_2 \mid t_2), a_1$
Separating II	$(s_1 \mid t_1, s_2 \mid t_2), (a_2 \mid s_1, a_1 \mid s_2)$
Lobby-pooling	s_1, a_2
Silence-pooling I	s_2, a_1
Silence-pooling II	s_2, a_2

Notes: s1 = costly lobbying; s2 = no costly lobbying; α1 = enact policy α2 = abandon or modify policy.

All organized interests in the sample are lobbyists in the minimum sense that they were reported in the media as having positioned themselves with respect to one or more of the policy proposals. However, in the signalling game described above costly lobbying is behaviour that goes beyond the voicing of an

opinion on a policy issue. Costly lobbying is therefore measured as engaging in more than the sample average of lobbying acts respondents were asked about in the survey.[14] Using 'above average' activity as a measure of costly lobbying makes substantive sense: The world of political advocacy is a noisy one, so the decision to stick out above the general noise by turning up the lobbying effort over and above what is average is a decision to send a more costly signal. Because notions of 'normal' lobbying activity are likely to differ for different kinds of lobbyist (firms, trade associations, citizen groups, etc.), averages have been calculated separately for each actor type. To account for differential resources of the different actors, the number of lobbying activities performed by each actor has been weighted by the actor's resources.[15]

To classify the state of the world, respondents were asked about their assessment of the expected public consequences of the policy with respect to employment, tax income, or 'other problems'.[16] The policy proposal was coded as leading to undesirable consequences (t_1) if respondents believed that the policy 'definitely' or 'probably' had one or more of these consequences.

Material lobbying costs (l) are the estimated monetary expenses made by organizations in the context of the respective policy proposal. For this, respondents were asked to indicate which of six categories, ranging from less than £5,000 to more than £500,000, best represents their total lobbying expenses in the context of the policy (alternatively, respondents could indicate that they did not spend any money at all). While this item enjoyed a high response rate, data attrition was countered required filling in non-responses with answers to a similar question asking about staff hours used for working on the policy episode. This measure was also recorded on a seven-category ordinal scale.

To gauge the reputation of a lobbyist that would be at stake if it turned out that the information he provided was not accurate (k), respondents were asked about the frequencies of their interactions with four different types of policymakers: MPs, ministers, senior civil servants, and regulators. Options for answers on six-point ordinal scales ranged from 'no contact' at all to 'at least once a weak'. The vast majority of respondents answered all four questions, and responses were averaged whenever more than one item was answered.

To capture the policymaker's pledge costs (p), respondents were asked to indicate how much they thought the government was committed to the policy.[17] For the electoral repercussions of enacting policies that were likely to produce unintended effects (u), respondents were asked, 'to what extent do you think the government's plans for introducing POLICY may affect how satisfied or dissatisfied

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[14] Respondents were asked, 'in your efforts to influence the government's plans for POLICY, did you pursue any of the following activities?' A list of 18 items that were presented to respondents is given in the appendix.

[15] For firms, ordinal categories of turnover were used; for other organizations these refer to the operating budget. Where turnover/budget figures were not available, commensurate categories indicating the number of fulltime staff were used.

[16] Respondents were asked, 'sometimes a government policy can have wide repercussions, e.g. through its effects on the economy or because a policy creates more or bigger problems than it solves. To what extent do you agree or disagree with the following statements concerning the government's policy of ...?'

[17] 'On a scale from 0 to 10 (with 0 indicating no commitment and 10 indicating very high commitment), how committed do you think the UK government was to introducing POLICY?'

voters are with the government?' Answers on a five-point ordinal scale range from 'the policy would lead to voters being … much more satisfied' to 'much more dissatisfied'. Lastly, as the four utilities that form the cost ratios were measured on different scales, they were rescaled to range between 0 and 1 (0.00001 and 1 in the cases of *u* and *k*).

4   Results

How accurately does the model developed by Bernhagen and Bräuninger predict the behaviour of lobbyists and policymakers in the context of actual policy episodes? Figure 2 displays empirical observations of the main equilibrium types. To facilitate assessing the match between the empirical observations and the theoretical predictions, the plot areas are divided into quadrants delineated by balanced cost ratios for both players (*p/u*=1, *l/k*=1). The first separating equilibrium (I), in which the policymaker always enacts the policy as planned and the lobbyist accurately reports the state of the world to the policymaker is predicted to occur if *p>u* and *l<k*. The model correctly predicts this separating equilibrium to occur in the top left quadrant in 9 out of 12 cases. Separating equilibrium II, in which the policymaker follows the informative advice given by the lobbyist, is predicted to occur if *p<u* and *l>k* (the bottom right quadrant). In this instance, the model performs considerably worse, incorrectly predicting all five cases. All of these five cases are also coded as lobby pooling equilibria (see below). Two are located in the top left quadrant, where separating on the part of the lobbyists is indeed expected, albeit matched with a different, responsive strategy of the policymaker as predicted in separating equilibrium I.
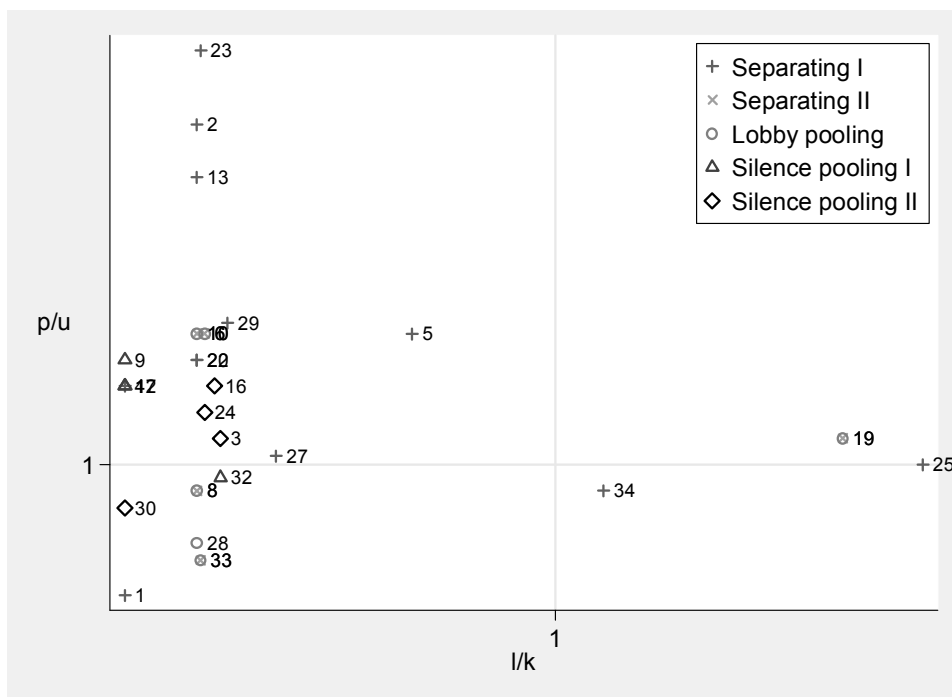

Figure 2: Empirical observations of the main equilibria (all actors)

Turning to the lobby-pooling equilibria, a weak performance of the model in predicting pooling on lobbying can be noted. According to Bernhagen and Bräuninger's lobbying model, an informationally privileged lobbyist is predicted to always lobby against a policy when high levels of reputation and trust are at stake ($l<k$) and the policymaker is likely to give in to lobbying due to high potential policy costs ($p<u$). The model correctly predicts three out of six cases marked by this type of equilibrium (cases 8, 28 and 33). The other three cases are found in the wrong quadrants. The success rate is thus 50 percent, and the overall small number of observations for this equilibrium type does not warrant strong inferences.

Lastly, the lobbying model predicts silence pooling equilibria where lobbying would be expensive ($l/k > 1$) but futile, as moderate to high pledge costs make the policymaker inclined to pass the policy any-way (silence pooling equilibrium I). In fact, all four cases identified as silence equilibria of this kind are located to the left of the point where lobbying costs equal reputation costs. Rather than contradicting the theoretical model this reflects the fact that, empirically, lobbyists do not incur great lobbying expenses if they decide not to engage in costly lobbying. Because *hypothetical* lobbying costs would exceed the costs attached to both providing bad information and withholding good information, the lobbyist anticipates credibility problems and hence has no incentive to send a costly message what-ever the state of the world. Three of the four silence equilibria of type I are located in higher regions of p/u, which corresponds to the model's prediction that a policymaker facing a high pledge-to-economic-cost ratio always passes the policy. Because the findings concerning the silence-pooling I equilibrium testify to the difficulty of measuring actions that were not taken more than saying much about the merit of the theoretical model, this equilibrium should discarded when assessing the overall performance of the model.

Lastly, according to Bernhagen and Bräuninger's model, small pledge costs relative to larger policy costs prompt the policymaker to drop the policy at the mere mention of bad consequences, so that no costly lobbying effort is needed on the part of the lobbyist (silence-equilibrium II). Only one out of four of the cases characterized by this equilibrium is correctly located in the region where $p<u$.

Overall, the model's empirical performance is mixed, correctly predicting about half of the equilibria in this small sample on British public policy episodes. Perhaps the more interesting finding is that suc-cess rates vary considerably across the different equilibrium types. In the case of separating equilibrium I, which is also by far the most frequently observed equilibrium, the model performs reasonably well. By contrast, only one in two of the lobby-pooling equilibria are predicted by the correct utility ratios measured in the survey. Given that the part of the area defined p/u and $l<k$ for which this equilibrium is not predicted is larger than the part for which the lobby-pooling equilibrium is predicted, this is still better than a random guess.

Table 2. Equilibria Correctly Predicted

Equilibrium type	Correct	% correct	N
Separating I	9	75	12
Separating II	0	0	5
Lobby-pooling	3	50	6
Silence-pooling II	1	25	4
Total	**13**	**48**	**27**

Bernhagen and Bräuninger (2005) develop their theoretical model in the context of partial conflicts between business actors and policymakers. Both the logic of attempting to influence public policy with the help of private information and the logic of reputational constraints on overstatements apply in principle to any type of lobbyist and have been empirically evaluated here using data on a host of different organized interests ranging from firms to citizen groups. However, it may be the case, that the Bernhagen and Bräuninger model, with its emphasis on bad policy consequences pertaining to the economy, is more appropriate in the context of business lobbyists, for three reasons. Firstly, policy-makers may be particularly sensitive to messages from business actors, who more often than other actors address issues of fundamental importance for the successful running of a country (Lindblom, 1977). Secondly, business predictions about the future effects of public policy are often partly or wholly non falsifiable, as almost always other factors come into play that affects the level of the variable about which a prediction is made: To say that a tax hike on profits is likely to have a negative effect on employment is a claim that can hardly be verified, as employment could fail to develop in the predicted direction regardless of whether the asserted causal link is accurate or not. Thirdly, unlike other interests, business actors to some extent have it in their hands to make their predictions come true. When oil producers claim that an additional tax on their profits will deter them from making planned future investments, it is ultimately the firms themselves that decide upon that investment, regardless of whether a tax increase 'forces' them to or not. To assess whether Bernhagen and Bräuninger model performs better for business actors, its predictions are plotted for the cases in which only business actors are involved. These results are reported in Figure 3.
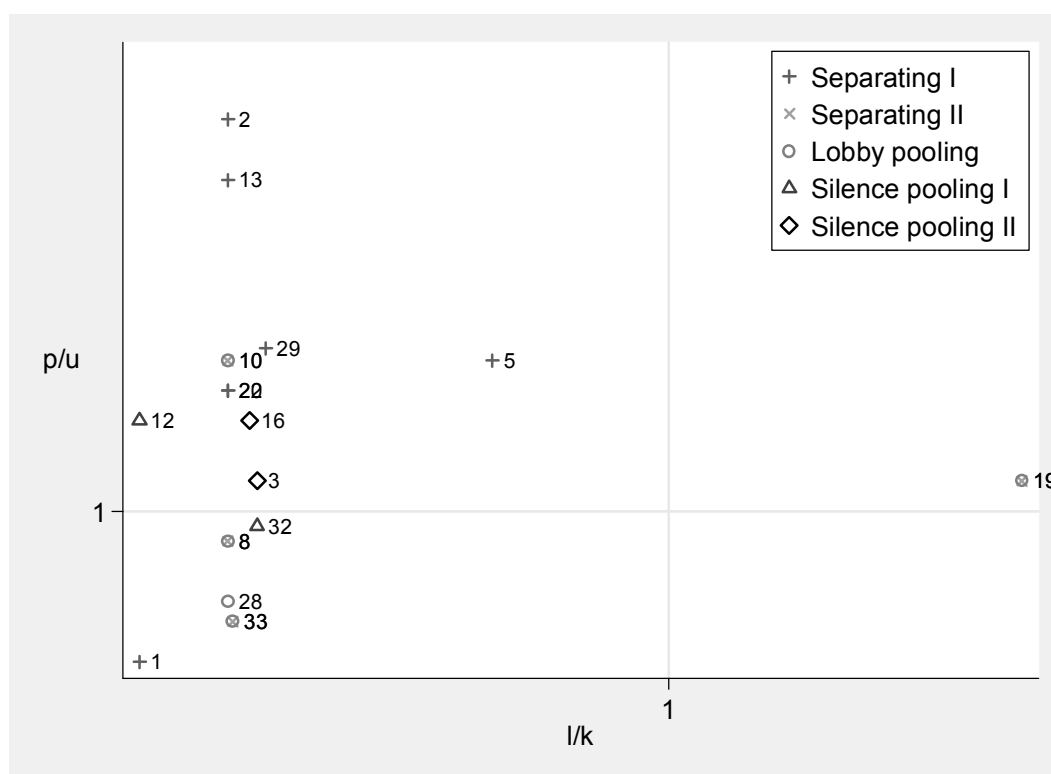
Figure 3: Empirical observations of the main equilibria (business actors only)

Restricting the analysis to business lobbyists does not alter the findings reported above. As with the entire sample of policy episodes and actors, the model performs well in predicting the separating equilibrium with a resolute policymaker (I), now getting it right five out of six times. Conversely, the model still performs poorly in predicting the separating equilibrium with a responsive policymaker (II). Three out of four instances of the lobby pooling equilibrium with business actors are located in the correct quadrant.

5   Discussion

This paper has implemented an empirical test of a formal model of interest group lobbying using data on 35 British policy episodes. The majority of correctly predicted cases support expectations of accurate and sincere lobbying, i.e. of signals that can *potentially* help policymakers to update their beliefs about the likely consequences of policy in line with the state of the world (separating equilibrium I). This could serve to improve the quality of political decision making and thereby contribute to enhancing the 'output legitimacy' (Scharpf 1999) of the political process. Lobbyists' influence in these instances still remains problematic in terms of the normative underpinnings of representative democracy, which demands that voters embrace a set of policies that elected officials will pursue – even if the resulting policies are flawed. The good news for democracy is that in these

situations policymakers are unresponsive to lobbyists' message, sticking to their policy pledges and overriding even useful lobbying information. By contrast, instances of democracy being sacrificed for the sake of competence and expertise are rare, and the model's predictive power in these instances is poor (separating equilibrium II).

The results also suggest that in only a small number of cases can lobbyists successfully persuade policymakers to take a course of action that is beneficial to the lobbyist while contravening the declared policy goals of a democratically mandated policymaker, and where the information on which this lobbying is based may contain inaccurate claims about the likely consequences of the policy. This is predicted by the lobby pooling equilibrium, which represents about one sixth of the cases. Only three out of six cases are correctly predicted by the model, lending only weak support for the expectation that lobbyists exploit their informational advantage and provide bad information to policymakers. In these situations, policymakers have a lot to lose from implementing a policy with undesired consequences. This makes them sufficiently sensitive to negative lobbying so that they will forgo their publicly announced policy intentions and (wrongly) heed the lobbyist's self-seeking advice. Such episodes lead to policies that favour a few while harming the many and are examples of the kind of special interest politics feared by Olson (1982) to cause economic and social decline.

The small number lobby pooling equilibria and weak support for the model's predictions about this equilibrium type suggests that lobbyists face strong constraints on pooling due to the importance of their reputation, Thus, lobbyists can rarely exploit private information to influence policy in a way that benefits them at the expense of voters. The strong, constraining effect of reputation suggests that lobbyists act very cautiously, especially when high pledge costs incline policymakers to follow through with their policy plans regardless of the lobbyists' message. Even when policymakers respond to lobby messages, lobbyists provide the corresponding separating signal most frequently when the policymaker faces high pledge costs, as can be seen in the three separating II equilibria that are located where pledge costs outweigh the costs of bad policy consequences. This suggests that the anticipated reaction of the policymaker might exert a much stronger effect on the strategy of the lobbyist than suggested by Bernhagen and Bräuninger's model. In this sense, it would seem to be the policymaker rather than the lobbyist who leads the dance in government-interest group relations (cf. Woll 2007).

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7   Appendix

Table A1. List of policy proposals

Case ID	Policy name	Outcome*
1	Action plan on Scottish fishing (Scotland)	1
2	Ageism ban	1
3	Airline bankruptcy levy	0
4	Animal welfare inspection	1
5	Asset freezing	1
6	Ban of battery cages	0
7	Care home safety (Scotland)	1
8	Collective bargaining over pensions	0
9	Commission for Integrated Transport Review	1
10	Corporate manslaughter	0
11	Council tax status of registered care homes	1
12	Extension of Individual Savings Account Rules	1
13	Extension of paid paternity leave	1
14	Graduate tax	0
15	Human cloning	1
16	Legal status of CO2 emission reductions	0
17	Legal support for asylum seekers	1
18	Lock-out Status	1
19	Mobile phone security	0
20	National pension: automatic enrolment	1
21	North sea oil supplementary tax increase	1
22	Pension protection fund	1
23	Pet owners' duty of care	1
24	Petrol duty increase (2004)	0
25	Privately run GP surgeries	1
26	Railway station security	0
27	Road building plans	1
28	Role of ACAS in possible redundancies	0
29	Smoking ban (Scotland)	1
30	Statutory consultees	0
31	Sunday trading	1
32	Support for renewables and energy efficiency technologies	1
33	Third party right of appeal (Scotland)	0
34	Trident replacement	1
35	Union Recognition: Three-year bar following ballot	1

* 1 = enacted; 0 = abandoned or considerably compromised.

Table A2. List of lobbying activities

a) Carried out or commissioned research

b) Newspaper adverts or press releases

c) Contacted MP

d) Wrote letter to the government

e) Organised a petition or e-petition

f) Met with government representatives or ministers

g) Gave evidence at a committee hearing or provided a consultation response

h) Participated in a feasibility study or working group

i) Set up a campaign website

j) Organised an info event, workshop, or press conference

k) Organised a social event

l) Organised a site visit

m) Coordinated with other companies

n) Coordinated with trade association or industry group

o) Hired a political consultant

p) Organised a protest

q) Coordinated with trade union

r) Other (please specify)

Note: This list is taken from the questionnaire for firms. Slight adaptations in wording of items *m*, *n*, and *q* have been made for other types of actors.